



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

December 8, 2004

Financial Audit Management Report

Leland R. Speed, Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, Mississippi 39205-0849

Dear Mr. Speed:

Enclosed for your review are the financial audit findings for the Mississippi Development Authority for the Fiscal Year 2004. In these findings which are considered to be immaterial weaknesses in internal control, the Auditor's Office recommends the Mississippi Development Authority:

1. Strengthen controls over expenditures; and
2. Strengthen controls over network security.

Please review the recommendations and submit a plan to implement them by January 4, 2005. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Development Authority to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Development Authority throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Development Authority for the year ended June 30, 2004. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Vicki Alvey, Liza Hammett, Carla Dawkins, and Tangela Beddingfield.

The fieldwork for audit procedures and tests was completed on October 28, 2004. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that require the attention of management. These matters are noted under the heading **IMMATERIAL WEAKNESSES IN INTERNAL CONTROL**.

Compliance

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Development Authority are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROL

Controls over Expenditures Should Be Strengthened

Finding:

During testwork performed on internal controls over expenditures at the Mississippi Development Authority, the following weaknesses were noted:

- Two instances out of 40 expenditures tested from fund 341X were noted as having no documented review of the request for cash by grants accounting personnel.
- Seven reporting worksheets out of 30 tested from fund 341Z were noted as having no documented review by grants accounting personnel.

Good internal controls require reports submitted to the agency receive a documented review by grants accounting personnel to ensure clerical accuracy, compliance with report requirements, and proper supporting documentation for amounts reported. The lack of an adequate review by grants accounting personnel could result in errors occurring and not being detected in a timely manner.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over expenditures by requiring reviews performed by grants accounting personnel be documented.

Controls over Network Security Should Be Strengthened

Finding:

During our review of the Novell network at the Mississippi Development Authority, we noted the following weaknesses:

- Unique passwords were not required for 24 users.
- No restrictions were in place for five vendor provided user names and generic user names. The use of vendor provided user names allows generic access to programs based on original parameters set by the vendor, not the agency. The use of generic user names allows access which is not restricted to a particular employee.
- Passwords for 19 users were not set to expire.
- Five terminated employees (one of which had two user IDs) had not been deactivated and still had access to the system.
- Passwords were not required for three users.

Control Objectives for Information and Related Technology (CobiT), a generally accepted standard for good information technology security and control practices, requires adequate access controls to resources. All employees should have a unique password. No generic or vendor provided user names should be used in the network. Also, employees who have not logged onto the computer system for 90 days should be deleted from the system. Without proper access controls in place, network security could be compromised, allowing unauthorized access to take place without being detected in a timely manner.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over network security by ensuring all users have a unique password to the network which is set to expire on a regular basis. The agency should identify users who have not used their passwords for 90 days and disable the passwords. All generic and vendor provided user names should be disabled or restricted.



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

January 28, 2005

Single Audit Management Report

Leland R. Speed, Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, Mississippi 39205-0849

Dear Mr. Speed:

Enclosed for your review are the single audit findings and other audit findings for the Mississippi Development Authority for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi Development Authority:

Single Audit Findings

1. Strengthen controls over reporting for the Workforce Investment Act (WIA) program;
2. Strengthen controls over subrecipient monitoring for the HOME Investment Partnerships (HOME) program;
3. Strengthen controls over monitoring subrecipient audit requirements for the WIA program;
4. Strengthen controls over the period of affordability inspections for the HOME program;

Other Audit Findings

5. Strengthen controls over monitoring subrecipient audit requirements for the HOME program; and
6. Strengthen controls over subrecipient monitoring for the WIA program.

Please review the recommendations and submit a plan to implement them by February 18, 2005. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mississippi Development Authority
January 28, 2005
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I hope you find our recommendations enable the Mississippi Development Authority to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Development Authority throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of selected federal programs of the Mississippi Development Authority for the year ended June 30, 2004. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Liza Hammett, Vicki Alvey, Carla Dawkins, Tangela Beddingfield, and Andy Salin.

The fieldwork for audit procedures and tests was completed on January 5, 2005. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

The management of the Mississippi Development Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

In addition, we noted other matters involving the internal control over compliance that require the attention of management that we have reported on the attached document "Other Audit Findings".

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary. Based on audit procedures and tests performed, we are pleased to report that no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

REPORTABLE CONDITIONS

CFDA/Finding Number

Finding and Recommendation

REPORTING

Reportable Condition

| | |
|--------|------------------------|
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.260 | WIA Dislocated Workers |

Federal Award Number and Year: Various

| | |
|-------|---|
| 04-10 | <u>Controls over Reporting Should Be Strengthened</u> |
|-------|---|

Finding:

The Mississippi Development Authority (MDA) is required to submit quarterly financial status reports to the U.S. Department of Labor (DOL) for the Workforce Investment Act (WIA) programs. A separate report is required for each of its funding streams, e.g., Adult Program, Youth Activities, Dislocated Workers, etc., by program year allotment and fiscal year allotment. These reports are initially prepared by accounting personnel and are submitted to program personnel for their review and certification.

Testwork performed on 11 financial status reports for the quarter ending March 31, 2004, out of 132 reports submitted to DOL during fiscal year 2004 revealed the following:

- Four instances were noted in which the "Total Outlays" and "Federal Unliquidated Obligations" amounts reported on the financial status reports submitted and certified by agency personnel did not agree to the accounting records. There was no support for changes made on the certified reports by program personnel. These changes increased "Total Outlays" and decreased "Federal Unliquidated Obligations" by the same amount. The amount of changes made ranged from \$49,150 to \$1,311,716.

- Three instances were noted in which the “Federal Unliquidated Obligations” and the “Unobligated Balance of Federal Funds” amounts reported on the financial status reports submitted and certified by agency personnel did not agree to the accounting records. There was no support for changes made on the certified reports by program personnel. These changes increased “Federal Unliquidated Obligations” and decreased the “Unobligated Balance of Federal Funds” by the same amount. The amounts of changes made ranged from \$4,013 to \$1,500,000.
- One instance was noted in which the “Total Federal Outlays,” the “Federal Unliquidated Obligations,” and the “Unobligated Balance of Federal Funds” amounts reported on the financial status report submitted and certified by agency personnel did not agree to the accounting records. There was no support for changes made on the certified reports by program personnel. These changes increased “Total Federal Outlays” by \$950,850 and decreased “Federal Unliquidated Obligations” and “Unobligated Balance of Federal Funds” by \$914,735 and \$36,115, respectively.

As a result of these discrepancies, we selected three additional financial status reports for the quarter ending June 30, 2004, and found that the amounts reported on the certified reports agreed to the accounting records. Good internal controls dictate any changes made to certified federal reports be adequately supported. Lack of adequate documentation supporting any changes could result in the submission of incorrect figures to the federal granting agency.

Recommendation:

We recommend the Mississippi Development Authority strengthen internal controls over reporting by ensuring amounts reported on quarterly financial status reports are properly supported prior to submission to the U.S. Department of Labor.

SUBRECIPIENT MONITORING

Reportable Condition

14.239

HOME Investment Partnerships Program

Federal Award Number and Year: Various

04-11

Controls over Subrecipient Monitoring Should Be Strengthened

Finding:

The *Code of Federal Regulations* (24 CFR Part 92.201) requires the Mississippi Development Authority (MDA) to conduct such reviews and audits of its State recipients as may be necessary or appropriate to determine compliance for the HOME Investment Partnerships Program. As further guidance for this regulation, the U.S. Department of Housing and Urban Development (HUD) issued a HOME Program Model entitled “Monitoring HOME Program Performance.”

This document requires MDA to perform on-site monitoring visits using risk factors to set monitoring priorities. The MDA has developed monitoring procedures which require an on-site visit to take place at least once during the life of a project to ensure compliance with all applicable federal regulations.

Testwork performed on 15 projects which closed prior to or during fiscal year 2004 to review the agency's adherence to its prescribed procedures for subrecipient on-site monitoring visits revealed the following weaknesses:

- Four instances in which the "Compliance Review" form, which documents supervisory review and approval of the monitoring visit and forms prepared by MDA monitors, did not have all required supervisory approvals documented.
- One instance in which the "Monitoring Response Review" form, which documents supervisory review and approval of the subrecipient's response to findings noted, did not appear in the monitoring file.
- One instance in which a subrecipient's response to monitoring findings did not appear in the monitoring file. There was no documentation on file indicating any attempts by MDA to obtain this response.
- One instance in which a subrecipient's monitoring file could not be located by MDA.
- One instance was noted in which the "Financial Management/IDIS Monitoring" checklist was not complete. Even though several questions were not answered on the checklist, the supervisor responsible for reviewing the "Financial Management/IDIS Monitoring" checklist signed off on the "Compliance Review" form indicating his review and approval.

Good internal controls dictate a supervisory review be performed on monitoring workpapers and reports to ensure completeness and propriety. Good internal controls also dictate agency personnel ascertain a monitoring response is received from the subrecipient in a timely manner. Finally, agency personnel should ensure all files are available for review. Without effective supervisory review procedures, potential subrecipient noncompliance could occur and not be promptly detected.

Recommendation:

We recommend the Mississippi Development Authority strengthen its existing internal controls for subrecipient monitoring. Greater care should be taken during the supervisory review process to ensure the completeness and availability of monitoring files.

SUBRECIPIENT MONITORING

Reportable Condition

| | |
|--------|------------------------|
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.260 | WIA Dislocated Workers |

Federal Award Number and Year: Various

04-12 Controls over Monitoring Subrecipient Audit Requirements Should Be Strengthened

Finding:

The Mississippi Development Authority provided \$300,000 or more of federal financial assistance to multiple subrecipients through the Workforce Investment Act (WIA) programs during fiscal year 2002. The Office of the Management and Budget (OMB) Circular A-133 requires the pass-through entity (primary recipient of federal funds) to determine whether subrecipients have met the appropriate audit requirements. This includes ensuring receipt of an audit report performed in accordance with OMB Circular A-133 from each subrecipient expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards in a fiscal year. The audit reports are to be submitted to the primary agency within nine months after the end of the subrecipient's fiscal year. In addition, the primary recipient must issue a management decision on audit findings within six months after receipt of the audit report and ensure the subrecipient took appropriate and timely corrective action.

Testwork performed during the fiscal year 2004 audit on subrecipient audits received and reviewed by the agency for subrecipient audit year 2002 revealed the following:

- One instance out of seven tested, or 14 percent, was noted in which the agency did not complete its audit review checklist to ensure the audit contained the proper information.
- Five instances of seven tested, or 71 percent, were noted in which it could not be determined if the audit reports were received by the agency within the nine-month deadline. The agency did not utilize a tracking document nor did it date stamp the audit reports to document the date of receipt by the agency.

Without adequate controls over the submission of audit reports and completion of audit reviews, the agency could fail to comply with federal requirements. Also, federal noncompliance by subrecipients could occur and not be detected promptly.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls to ensure subrecipient audit reports are received timely and audit reviews are completed for every audit submitted.

SPECIAL TESTS AND PROVISIONS

Reportable Condition

14.239 HOME Investment Partnerships Program

Federal Award Number and Year: Various

04-13 Controls over Period of Affordability Inspections Should Be Strengthened

Finding:

The *Code of Federal Regulations* (24 CFR 92.504) requires the participating jurisdiction to perform on-site inspections during the period of affordability. The period of affordability is the period for which the non-federal entity must maintain rental housing assisted with HOME Investment Partnerships Program funds. The purpose of these inspections is to ensure compliance with housing quality standards per the *Code of Federal Regulations* (24 CFR 92.251 and 92.252).

Testwork performed at the Mississippi Development Authority on 10 projects to ensure these on-site inspections were completed revealed the following:

- Three on-site inspections required to be performed during fiscal year 2004 had not been performed.
- One instance was noted in which the agency could not locate the period of affordability on-site inspection file; therefore, no testwork could be performed.
- One instance was noted in which there was no indication of supervisory review of the period of affordability on-site inspection by management.
- In addition, testwork performed to ensure the propriety of the agency's period of affordability inspection tracking document revealed five closed projects which should have been included on the document were not included.

Good internal control procedures dictate supervisory personnel ensure the period of affordability inspection tracking document is proper and ensure the required inspections are performed by agency personnel. Good internal controls also dictate proper supervisory reviews be performed of inspection documents and that all files be maintained. Failure to ensure the propriety of the period of affordability inspection tracking document could result in nonperformance of the required inspections, and failure to ensure the required inspections are performed and reviewed by supervisory personnel could result in housing quality standards not being properly maintained.

Recommendation:

We recommend the Mississippi Development Authority strengthen internal control procedures to ensure the period of affordability inspection tracking document is proper and period of affordability inspections are conducted in compliance with federal regulations for the HOME Investment Partnerships Program. We further recommend the agency ensure a supervisory review is performed on all inspections and the inspection files are properly maintained.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi Development Authority for the year ended June 30, 2004, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. Matters which require the attention of management were noted. These matters which do not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involve other internal control weaknesses.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS

| CFDA/Finding Number | Finding and Recommendation |
|--------------------------------|-----------------------------------|
|--------------------------------|-----------------------------------|

SUBRECIPIENT MONITORING

Immaterial Weakness

14.239

HOME Investment Partnerships Program

Federal Award Number and Year: M01-SG-28-01, 2001

Oth-4

Controls over Monitoring Subrecipient Audit Requirements Should Be Strengthened

Finding:

Testwork performed at the Mississippi Development Authority during fiscal year 2004 on subrecipient audits received and reviewed by the agency for subrecipient audit year 2002 for the HOME Investment Partnerships Program revealed that for one of the ten subrecipient audits tested, or ten percent, the subrecipient submitted a copy of its financial statements instead of an audit report performed in accordance with OMB Circular A-133.

The Office of Management and Budget (OMB) Circular A-133 requires the pass-through entity (primary recipient of federal funds) to determine whether subrecipients have met the appropriate audit requirements. This includes ensuring receipt of an audit report performed in accordance with OMB Circular A-133 from each subrecipient expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards in a fiscal year. The audit reports are to be submitted to the primary recipient within nine months after the end of the subrecipient's fiscal year. In addition, the primary recipient must issue a management decision on audit findings within six months after receipt of the audit report and ensure the subrecipient took appropriate and timely corrective action.

Good internal controls require adequate review over subrecipient audit reports to ensure any errors or omissions are properly detected. Without adequate controls over the proper submission of audit reports, the agency could fail to comply with federal requirements. Also, federal noncompliance by subrecipients could occur and not be detected promptly.

Recommendation:

We recommend the Mississippi Development Authority strengthen internal controls over the review of subrecipient audit reports to ensure proper audit reports are received.

SUBRECIPIENT MONITORING

Immaterial Weakness

| | |
|--------|------------------------|
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.260 | WIA Dislocated Workers |

Federal Award Number and Year: Various

| | |
|-------|---|
| Oth-5 | <u>Controls over Subrecipient Monitoring Should Be Strengthened</u> |
|-------|---|

Finding:

The *Code of Federal Regulations* (20 CFR 667.410(a)) requires each recipient and subrecipient to conduct regular oversight and monitoring of its Workforce Investment Act (WIA) activities and those of its subrecipients and contractors. The Mississippi Development Authority's practice is to monitor all subrecipients at least once during each program year. Testwork performed on 10 subrecipients to ensure an on-site monitoring review was conducted during program year 2003 by the Mississippi Development Authority (MDA) revealed one on-site monitoring visit of a subrecipient had not been performed by MDA. Good internal control procedures dictate management ensure on-site monitoring visits are conducted in accordance with its procedures. Failure to ensure on-site monitoring visits are performed could result in subrecipient noncompliance with WIA regulations.

Recommendation:

We recommend the Mississippi Development Authority strengthen controls over subrecipient monitoring to ensure on-site visits are conducted each program year.